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ORIGINAL

MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson *EGJ*
Director
Utilities Division

2008 AUG 13 A 9:37

AZ CORP COMMISSION
DOCKET CONTROL

DATE: August 13, 2008

RE: STAFF REPORT FOR WATER UTILITY OF NORTHERN SCOTTSDALE,
INC.'S APPLICATION FOR A PERMANENT RATE INCREASE.
(DOCKET NO: W-03720A-08-0225)

Attached is the Staff Report for Water Utility of Northern Scottsdale Inc.'s ("Company") application for a permanent rate increase. Staff recommends approval of a rate increase in accordance with Staff's recommendations.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 12:00 p.m. on or before August 25, 2008.

EGJ:MEM:tdp

Originator: Marvin E. Millsap

Arizona Corporation Commission
DOCKETED

AUG 13 2008

DOCKETED BY	<i>MM</i>
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Service List for: Water Utility of Northern Scottsdale, Inc.
Docket No. W-03720A-08-0225

Mr. Michael W. Patten
Roshka DeWulf & Patten, PLC
One Arizona Center
400 East Van Buren Street
Phoenix, Arizona 85004

Mr. Timothy J. Sabo
Roshka DeWulf & Patten, PLC
One Arizona Center
400 East Van Buren Street
Phoenix, Arizona 85004

Mr. Graham Symmonds
Senior Vice President
Global Water Management
21410 North 19th Avenue, Suite 201
Phoenix, Arizona 85027

Ms. Lyn Farmer
Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice M. Alward
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

WATER UTILITY OF NORTHERN SCOTTSDALE, INC.

DOCKET NO. W-003720A-08-0225

**APPLICATION FOR A
PERMANENT RATE INCREASE**

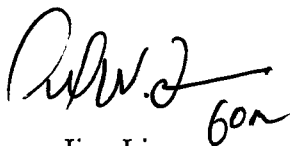
AUGUST 13, 2008

STAFF ACKNOWLEDGMENT

The Staff Report for Water Utility of Northern Scottsdale, Inc., Docket No. W-03720A-08-0225, was the responsibility of the Staff members listed below. Marvin E. Millsap was responsible for the financial review and analysis of the Company's application. Jian Liu was responsible for the engineering and technical analysis. Trish Meeter was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Marvin E. Millsap
Public Utilities Analyst IV



Jian Liu
Utilities Engineer



Trish Meeter
Public Utilities Consumer Analyst

**EXECUTIVE SUMMARY
WATER UTILITY OF NORTHERN SCOTTSDALE, INC.
APPLICATION FOR A PERMANENT RATE INCREASE
DOCKET NO. W-03720A-08-0225**

Water Utility of Northern Scottsdale, Inc. ("WUNS" or "Company") is a Class D water utility located in Maricopa County with service areas within the northern city limits of Scottsdale, Arizona. WUNS provides potable water to approximately 75 metered customers in its certificated area.

WUNS proposes total operating revenue of \$163,000, an increase of \$50,438 or 44.81 percent above the Company adjusted test year revenue of \$112,562. The Company's proposed rates would increase the typical one-inch meter residential bill, with a median usage of 6,638 gallons, from \$66.55 to \$100.35; an increase of \$33.80, or 50.8 percent. The Company proposes an inverted, three-tier rate design.

Staff recommends total operating revenue of \$122,848, an increase of \$35,108 or 40.01 percent above the Staff adjusted test year revenue of \$87,740. Staff's recommended rates would increase the typical one-inch meter residential bill, with a median usage of 6,638 gallons, from \$66.55 to \$92.83; an increase of \$26.28, or 39.5 percent.

Staff recommends approval of the Staff recommended rates and charges as shown on Schedule MEM-4.

Staff further recommends that the Company, in conjunction with the filing of its next rate adjustment request with the Commission, be required to allocate the Global Water Management, LLC, or other source of centralized management services, general office expenses on the basis of at least four factors to include: (1) number of customers; (2) utility plant value; (3) operating expenses; and (4) labor costs. General office expenses are allocable to non-regulated entities as well as regulated entities and should be included in calculating the four-factor expense distribution percentages.

Staff further recommends that the Company be required to file a rate adjustment request on, or before, April 30, 2011, using a test year ended December 31, 2010.

Staff further recommends that the Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

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ATTACHMENTS

Engineering Report	A
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Fact Sheet

Type of Ownership: Arizona "C" Corporation

Location: In Maricopa County within the northern city limits of Scottsdale, Arizona.

Rates: Permanent rate increase application filed April 30, 2008. The application became sufficient on May 30, 2008.

Current Rates: Decision No. 62362, dated March 6, 2000, which also granted the CC&N.

Metered Rates:

Based on 1 inch residential meter	Company Current <u>Rates</u>	Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
Monthly Minimum Charge	\$40.00	\$69.75	\$57.00
Gallons in minimum	0	0	0
Tier One from 1 gallon to 12,000 gallons	\$4.00		
Tier Two all gallons over 12,000	\$5.00		
Tier One from 1 gallon to 4,000 gallons		\$3.60	\$5.00
Tier Two from 4,001 gallons to 7,000 gallons		\$5.40	
Tier Three all gallons over 7,000		\$6.50	
Tier Two from 4,001 gallons to 10,000 gallons			\$6.00
Tier Three all gallons over 10,000			\$7.00
Typical residential bill (based on median usage of 6,638 gallons)	\$66.55	\$100.35	\$92.83

Customers:

The Company served an average of 67 metered customers during the test year, broken-out by meter size as follows:

5/8 x 3/4 – inch meter	0
1 – inch meter	61
1 ½ - inch meter	4
2 – inch meter (Hydrant)	2

Complaints:

Number of customer complaints/opinions since rate application filed: None

Percentage of complaints to customer base: N/A

Notifications:

Customer notification was mailed on May 9, 2008.

SUMMARY OF RATE FILING

On April 30, 2008, Water Utility of Northern Scottsdale, Inc. ("WUNS" or "Company"), filed a request for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On May 30, 2008, the application was deemed sufficient by Utilities Division Staff ("Staff").

Based on test year results as adjusted by Staff, the Company had an operating loss of \$14,684 for no rate of return or operating margin, as shown on Schedule MEM-1.

The Company's proposed rates would produce operating revenues of \$163,000 and result in an operating income of \$16,341, for a 10.03 percent operating margin. The Company proposes an original cost rate base ("OCRB") of a negative \$125,937. The Company's proposed rates would increase the typical one-inch meter residential bill with a median usage of 6,638 gallons from \$66.55 to \$100.35, for an increase of \$33.80 or 50.8 percent.

Staff's recommended rates would produce operating revenues of \$122,848 and result in an operating income of \$15,987, for a 13.01 percent operating margin. Staff's recommended OCRB is a negative \$122,142. Staff's recommended rates would increase the typical one-inch meter residential bill with a median usage of 6,638 gallons from \$66.55 to \$92.83, for an increase of \$26.28 or 39.5 percent.

The Company utilized a test year ending December 31, 2007.

BACKGROUND

WUNS is an Arizona class D utility engaged in the business of providing potable water service. WUNS was granted a Certificate of Convenience and Necessity ("CC&N") to provide water service per Decision No. 62362, effective March 6, 2000, which is also when the current rates became effective. The Company is an Arizona "C" Corporation and is a wholly owned subsidiary of West Maricopa Combine, Inc., which is owned by Global Water Resources, LLC ("Global").

According to its application, the Company provides potable water to approximately 75 metered customers in its certificated area, which is contiguous to and within the northern city limits of Scottsdale, Arizona. In response to a data request, however, WUNS indicated that the average number of customers served was actually 67 not 75.

CONSUMER SERVICES

A review of the Consumer Services Section database for the Company from January 1, 2005, through December 20, 2007, revealed that in 2007 there were no complaints, inquiries or opinions. In 2006, there were no complaints, inquiries or opinions. In 2005, there was one complaint (relating to company policies), and no inquiries or opinions.

COMPLIANCE

The Utilities Division Compliance Section showed no outstanding compliance issues.

The Company is within an Active Management Area and is subject to the Arizona Department of Water Resources monitoring and reporting requirements for groundwater withdrawals.

The Arizona Department of Environmental Quality reported that the Company's Public Water System #01-018, had no deficiencies and is currently delivering water that meets the quality standards required by the Arizona Administrative Code, Title 18 Chapter 4.

The Corporations Division of the Commission indicates the Company is in good standing.

The Company has been unable to obtain a certificate of good standing from the Arizona Department of Revenue ("ADOR"). WUNS explains that the reason stems from its ownership by holding companies during its existence and, consequently, the filing of consolidated corporate income tax returns. An ADOR Certificate of Good Standing relates to sales, property and withholding taxes being currently paid. The Company, according to its description of the actions taken to satisfy ADOR requirements, appears to have done all that can be done for ADOR and the matter is now beyond its control. Staff believes that an ADOR Certificate of Good Standing should be submitted to the Commission by December 31, 2008.

Staff has confirmed through the Maricopa County Treasurer's Office that, as of December 31, 2007, the Company is current on its property taxes.

ENGINEERING ANALYSIS

The water system was visited on June 25, 2008, by Mr. Jian Liu., Staff Engineer, in the accompaniment of Dave McLeod, Jamie Moe, and Robin Bain of the Company. A complete

discussion of Staff's technical findings and recommendations along with a complete description of the Company's water system is provided in the attached Engineering Report.

RATE BASE

As shown on Schedule MEM-2, page 1, Staff recommends a rate base of a negative \$122,142. This represents an increase of \$3,795 over the Company's proposed rate base of a negative \$125,937, due to Staff's adjustment to cash working capital.

Plant-in-Service

Staff determined that no adjustment was required to be made to plant-in-service or accumulated depreciation. Although Wells No. 3 and No. 4 are not used and useful, no adjustment is required because the cost of Well No. 3 is offset completely by contributions in aid of construction ("CIAC") and the cost of Well No. 4 is not included in plant because the records of the previous owner of WUNS did not have cost information for Well No. 4. See Schedule MEM-2, page 2 of 3 and MEM-2, page 3 of 3.

Working Capital

Adjustment A increased cash working capital from zero to \$3,795 due to Staff's inclusion of a cash working capital component based on the formula method. See Schedule MEM-2, page 1 of 3.

OPERATING REVENUES

The Company's actual test year operating revenues were \$87,740 but were adjusted to \$112,562, to include 21 additional "future" customers in addition to its 67 customer test year average. WUNS used the pro-forma customer level of 88 because it believes that the 21 customer growth will occur within the short-term and wanted to minimize the size of the rate increase for current customers by imputing the revenue from these future customers. Staff believes that this does not send the proper price signals to current customers, so Staff removed the Company's pro forma adjustment and used the actual test year billing determinants for its revenue determination and rate design process. Adjustment A decreases water sales revenue by \$24,822, from \$110,681 to \$85,859. See Schedule MEM-3, page 1 of 2.

OPERATING EXPENSES

Staff's adjustments to operating expenses resulted in a decrease of \$33,962 from \$136,386 to \$102,424, as shown on Schedule MEM-3, page 1 of 2. The adjustments are explained below.

Purchased Power – Adjustment B decreased purchased power by \$384 from \$7,779 to \$7,395, to reflect a double recording of the April electric billing from Salt River Project.

Water Testing Expense – Adjustment C increased water testing expenses by \$430, from \$668 to \$1,098, in accordance with Staff's analysis on Page 3 of the Engineering Report that is attached.

Outside Services – Adjustment D decreased outside services by \$34,058 from \$57,458 to \$23,400 to reflect Staff's disallowance of a portion of the management fees charged by Global. Staff calculated the level of management fees expense to be included in Outside Services Expense based on \$26 per customer per month. The selection of this amount is predicated on a previous rate case in which Global provided management services to the applicant and, after much research into the operating expenses and practices of small water companies, Staff concluded that \$26 per month per customer was just and reasonable (please see Docket No. W-02111A-06-0361). In situations where there is a source of central management for numerous and geographically dispersed water and wastewater utilities, it is customary to distribute the central, or "general," office expenses to the various entities on the basis of four, or more, factors: (1) number of customers; (2) utility plant value; (3) operating expenses; and (4) labor costs. General office expenses are allocable to non-regulated entities as well as regulated entities and should be included in calculating the four-factor expense distribution percentages. Other causal bases for the allocation of general office expenses exist and may be implemented by Global.

Income Taxes – Adjustment E increased income taxes from zero to \$50 to reflect Arizona's minimum corporate income tax of \$50.

REVENUE REQUIREMENT

The Company's proposed operating revenue of \$163,000 would provide an operating income of \$16,341 and a resulting 10.03 percent operating margin.

Staff's recommended operating revenue of \$122,848 would provide an operating income of \$15,987 and a resulting 13.01 percent operating margin.

RATE DESIGN

The Company's proposed rates would increase the typical one-inch meter residential bill with a median usage of 6,638 gallons from \$66.55 to \$100.35, for an increase of \$33.80 or 50.8 percent.

Staff's recommended rates would increase the typical one-inch meter residential bill with a median usage of 6,638 gallons from \$66.55 to \$92.83, for an increase of \$26.28 or 39.5 percent.

Staff concurs with the Company's service line and meter installation charges, and other service charges.

STAFF RECOMMENDATIONS

Staff recommends the following:

Approval of its rates and charges as shown in Schedule MEM-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

The Company, in conjunction with the filing of its next rate adjustment request with the Commission, be required to allocate the Global Water Management, LLC, or other source of centralized management services, general office expenses on the basis of at least four factors: to include (1) number of customers; (2) utility plant value; (3) operating expenses; and (4) labor costs. The Company may use any causal basis for the allocation of Global's expenses provided it is sufficiently supported and justified. General office expenses are allocable to non-regulated entities as well as regulated entities and should be included in calculating the four- factor (or more) expense distribution percentages.

The Company be required to file a rate adjustment request on/or before April 30, 2011, using a test year ended December 31, 2010.

The Company be ordered to submit an ADOR Certificate of Good Standing to the Commission by December 31, 2008.

The Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Water Sales	\$110,681	\$85,859	\$161,119	\$120,967
Other Operating Revenue	1,881	1,881	1,881	1,881
Total Operating Revenue	\$112,562	\$87,740	\$163,000	\$122,848
Operating Expenses:				
Operation and Maintenance	\$69,305	\$35,293	\$69,305	\$35,293
Depreciation	64,145	64,145	64,145	64,145
Taxes Other than Income	2,936	2,936	2,936	2,936
Income Tax	0	50	10,273	4,487
Total Operating Expense	\$136,386	\$102,424	\$146,659	\$106,861
Operating Income/(Loss)	(\$23,824)	(\$14,684)	\$16,341	\$15,987
Rate Base O.C.L.D.	N/A	N/A	N/A	N/A
Rate of Return - O.C.L.D.	N/A	N/A	N/A	N/A
OPERATING MARGIN	N/A	N/A	10.03%	13.01%

NOTE:

1. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.
2. Because the Company has a negative rate base, no rate of return can be calculated.

RATE BASE

	----- Original Cost -----		
	Company	Adjustment	Staff
Plant in Service	\$1,907,051	\$0	\$1,907,051
Less:			
Accum. Depreciation	167,134	0	167,134
Net Plant	\$1,739,917	\$0	\$1,739,917
Less:			
Plant Advances	\$1,862,424	\$0	\$1,862,424
Customer Meter Deposits	3,430	0	3,430
Total Advances	\$1,865,854	\$0	\$1,865,854
Contributions Gross	\$0	\$0	\$0
Less:			
Amortization of CIAC	0	0	0
Net CIAC	\$0	\$0	\$0
Total Deductions	\$1,865,854	\$0	\$1,865,854
Plus:			
1/24 Power	\$0	\$308 A	\$308
1/8 Operation & Maint.	0	3,487 A	3,487
Inventory	0	0	0
Prepayments	0	0	0
Total Additions	\$0	\$3,795	\$3,795
Rate Base	(\$125,937)	\$3,795	(\$122,142)

Explanation of Adjustment:

- A - To consider the investment of cash working capital needed to operate the utility based on the formula method.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Intangibles	\$0	\$0	\$0
303 Land & Land Rights	27,877	0	27,877
304 Structures & Improvements	20,000	0	20,000
307 Wells & Springs	130,000	0	130,000
311 Pumping Equipment	214,647	0	214,647
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs	182,972	0	182,972
331 Trans & Dist Mains	1,155,323	0	1,155,323
333 Services	60,047	0	60,047
334 Meters	10,680	0	10,680
335 Hydrants	102,340	0	102,340
340 Office Furniture & Fixtures	0	0	0
341 Transportation Equipment	0	0	0
343 Tools & Work Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communications Equipment	0	0	0
348 Other Tangible Plant	3,165	0	3,165
105 C.W.I.P.	0	0	0
TOTALS	\$1,907,051	\$0	\$1,907,051

Water Utility of Northern Scottsdale
Docket No. W-03720A-08-0225
Test Year Ended December 31, 2007

Schedule MEM-2
Page 3 of 3

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$167,134
Accumulated Depreciation - Per Staff	167,134
Total Adjustment	\$0

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments		Staff Adjusted
Revenues:				
Water Sales	\$110,681	(\$24,822)	A	\$85,859
Other Operating Revenue	1,881	0		1,881
Total Operating Revenue	\$112,562	(\$24,822)		\$87,740
Operating Expenses:				
Purchased Pumping Power	\$7,779	(\$384)	B	\$7,395
Purchased Water	0	0		0
Salaries and Wages	0	0		0
Repair and Maintenance	0	0		0
Water Testing	668	430	C	1,098
Chemicals	715	0		715
Transportation Expense	0	0		0
Office Supplies & Expense	0	0		0
Insurance	0	0		0
Outside Services	57,458	(34,058)	D	23,400
Rents	0	0		0
Depreciation	64,145	0		64,145
Property Tax	2,936	0		2,936
Taxes Other Than Income	0	0		0
Income Taxes	0	50	E	50
Miscellaneous Expense	2,685	0		2,685
Total Operating Expenses	\$136,386	(\$33,962)		\$102,424
OPERATING INCOME/(LOSS)	(\$23,824)	\$9,140		(\$14,684)
Other Income/(Expense):				
Interest Income	\$0	\$0		\$0
Other Income	0	0		0
Interest Expense	94	0		94
Other Expense	0	0		0
Total Other Income/(Expense)	(\$94)	\$0		(\$94)
NET INCOME/(LOSS)	(\$23,918)	\$9,140		(\$14,778)

STAFF ADJUSTMENTS

A -	REVENUES: WATER SALES - Per Company	\$110,681	
	Per Staff	85,859	\$24,822

Staff removed Company's pro forma adjustment to include revenue from 21 "projected" customers.

B -	PURCHASED PUMPING POWER - Per Company	\$7,779	
	Per Staff	7,395	(\$384)

April Salt River Project electricity billing recorded twice.

C -	WATER TESTING - Per Company	\$668	
	Per Staff	1,098	\$430

Water testing expense for the test year as determined by the Staff Engineer.

D -	OUTSIDE SERVICES - Per Company	\$57,458	
	Per Staff	23,400	(\$34,058)

Staff recommended management fees at \$26.00 per customer per month for 75 customers. Staff has previously determined this charge to be fair and reasonable based on a study of 35 small water companies. Averaged costs include salaries, rent, office expense and supplies, telephone, insurance and transportation costs.

E -	INCOME TAXES - Per Company	\$0	
	Per Staff	50	\$50

Arizona minimum tax for corporations.

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$16.00	\$27.90	\$27.00
3/4" Meter	20.00	27.90	27.00
1" Meter	40.00	69.75	57.00
1 1/2" Meter	80.00	139.50	120.00
2" Meter	128.00	223.20	128.00
3" Meter	240.00	446.40	340.00
4" Meter	400.00	697.50	550.00
6" Meter	800.00	1,395.00	1,100.00
Excess of Minimum - per 1,000 Gallons	\$4.00		
Gallons Included in Minimum	0		
Excess of Minimum - per 1,000 Gallons	\$4.00		
Gallons Included in First Tier	12,000		
Excess of Minimum - per 1,000 Gallons	\$5.00		
Gallons Included in Second Tier	Over 12,000		
Excess of Minimum - per 1,000 Gallons	N/A		
Gallons Included in Third Tier	N/A		
Excess of Minimum - per 1,000 Gallons		\$3.60	
Gallons Included in First Tier		4,000	
Excess of Minimum - per 1,000 Gallons		\$5.40	
Gallons Included in Second Tier		7,000	
Excess of Minimum - per 1,000 Gallons		\$6.50	
Gallons Included in Third Tier		Over 7,000	
Excess of Minimum - per 1,000 Gallons			\$5.00
Gallons Included in First Tier			4,000
Excess of Minimum - per 1,000 Gallons			\$6.00
Gallons Included in Second Tier			10,000
Excess of Minimum - per 1,000 Gallons			\$7.00
Gallons Included in Third Tier			Over 10,000
Service Line and Meter Installation Charges			
5/8" x 3/4" Meter	\$485.00	\$485.00	\$485.00
3/4" Meter	485.00	520.00	520.00
1" Meter	570.00	610.00	610.00
1 1/2" Meter	775.00	855.00	855.00
2" Turbine Meter	1,900.00	1,515.00	1,515.00
2" Compound Meter	N/A	2,240.00	2,240.00
3" Turbine Meter	2,490.00	2,195.00	2,195.00
3" Compound Meter	N/A	3,030.00	3,030.00
4" Turbine Meter	3,615.00	3,360.00	3,360.00
4" Compound Meter	N/A	4,315.00	4,315.00
6" Turbine Meter	6,810.00	6,115.00	6,115.00
6" Compound Meter	N/A	7,890.00	7,890.00
Service Charges			
Establishment	\$30.00	\$30.00	\$30.00
Establishment (After Hours)	45.00	45.00	45.00
Reconnection (Delinquent)	30.00	30.00	30.00
Meter Test (If Correct)	30.00	30.00	30.00
Deposit	0.00	0.00	*
Deposit Interest	0.00%	0.00%	*
Re-Establishment (Within 12 Months)	0.00	**	**
NSF Check	15.00	15.00	30.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	20.00	20.00	25.00
Late Payment Fee	3.00		3.00
Monthly Service Charge for Fire Sprinkler			
4" or Smaller	\$0.00	\$0.00	***
6"	0.00	0.00	***
8"	0.00	0.00	***
10"	0.00	0.00	***
Larger than 10"	0.00	0.00	***

* Per Commission Rules (R14-2-403.B)

** Months off system times the minimum (R14-2-403.D)

*** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

TYPICAL BILL ANALYSIS

General Service 1 - Inch Meter

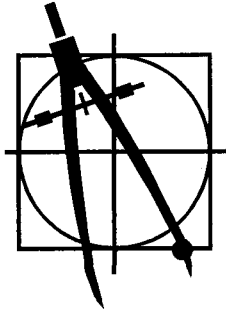
Average Number of Customers: 62

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	11,597	\$86.39	\$130.23	\$43.84	50.7%
Median Usage	6,638	\$66.55	\$100.35	\$33.80	50.8%

<u>Staff Proposed</u>					
Average Usage	11,597	\$86.39	\$124.18	\$37.79	43.7%
Median Usage	6,638	\$66.55	\$92.83	\$26.28	39.5%

Present & Proposed Rates (Without Taxes) General Service 1 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$40.00	\$69.75	74.4%	\$57.00	42.5%
1,000	44.00	73.35	66.7%	62.00	40.9%
2,000	48.00	76.95	60.3%	67.00	39.6%
3,000	52.00	80.55	54.9%	72.00	38.5%
4,000	56.00	84.15	50.3%	77.00	37.5%
5,000	60.00	89.55	49.3%	83.00	38.3%
6,000	64.00	94.95	48.4%	89.00	39.1%
7,000	68.00	100.35	47.6%	95.00	39.7%
8,000	72.00	106.85	48.4%	101.00	40.3%
9,000	76.00	113.35	49.1%	107.00	40.8%
10,000	80.00	119.85	49.8%	113.00	41.3%
15,000	103.00	152.35	47.9%	148.00	43.7%
20,000	128.00	184.85	44.4%	183.00	43.0%
25,000	153.00	217.35	42.1%	218.00	42.5%
50,000	278.00	379.85	36.6%	393.00	41.4%
75,000	403.00	542.35	34.6%	568.00	40.9%
100,000	528.00	704.85	33.5%	743.00	40.7%
125,000	653.00	867.35	32.8%	918.00	40.6%
150,000	778.00	1,029.85	32.4%	1,093.00	40.5%
175,000	903.00	1,192.35	32.0%	1,268.00	40.4%
200,000	1,028.00	1,354.85	31.8%	1,443.00	40.4%



**Engineering Report for:
Water Utility of Northern Scottsdale for a
Rate Increase
Docket No. W-03720A-08-0225**

By: Jian W Liu
Utilities Engineer

July 10, 2008

EXECUTIVE SUMMARY

CONCLUSIONS:

1. ADEQ or its formally delegated agent, the Maricopa County Environmental Services Department ("MCESD"), reported that the Water Utility of Northern Scottsdale, Inc. ("WUNS") drinking water system (PWS Number 07-179) is in compliance with regulatory agency requirements and is currently delivering water that meets State and Federal drinking water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.
2. The WUNS is located in the Phoenix Active Management Area ("AMA") and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report on July 23, 2008, stating that ADWR has determined that WUNS is currently in compliance with departmental requirements governing water providers and/or community water systems.
3. Staff concludes that the WUNS water system has adequate production capacity and storage capacity based on water use data for the year 2007 (see Section B of this report for further discussion).

RECOMMENDATIONS

1. Staff recommends that the Company use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners category on a going forward bases.
2. Water testing expenses are based upon participation in the ADEQ Monitoring Assistance Program. Annual testing expenses should be adjusted to \$1,098 as described in Table 1 (see Section F of this report for further discussion).
3. Staff recommends that the separate service line and meter installation charges listed in Table C be approved (see Section K of this report for further discussion).

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FIGURES

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A. LOCATION OF COMPANY

The Water Utility of Northern Scottsdale (“WUNS” or “Company”) water system is located approximately 40 miles northeast of downtown Phoenix in Maricopa County with a certificated area covering approximately 3/4 of a square mile. Figure 1 shows the location of WUNS within Maricopa County and Figure 2 shows the certificated area.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on June 25, 2008, by Jian Liu, Staff Utilities Engineer, in the accompaniment of Dave McLeod, Jamie Moe, and Robin Bain of the Company.

The facility follows a typical configuration found in small water system. It consists of four wells, one 5,000 gallon pressure tank, one 250,000 gallon storage tank and a distribution system. At the time of Staff’s inspection, Wells 3 and 4 were not connected to the water system and not providing service to customers, and were determined to not be “used and useful” for the Company’s provision of service to customers for purposes of this rate case. Therefore, Staff recommends that the rate base be adjusted to exclude the cost of Wells 3 and 4. Figure 3 provides a process schematic for the water system. Staff concludes that the WUNS has adequate production capacity and storage capacity based on water use data for the year 2007.

(Tabular Description of Water System)

Well Data

	Well No 1	Well No 2	Well No 3	Well No 4
ADWR ID No.	55-565172	55-586186	55-583777	55-210840
Casing Size	8 inch	8 inch	8 inch	6 inch
Casing Depth	1,000 ft	1,000 ft	1,000 ft	1,000 ft
Pump Size	15 Hp	15 Hp	Not Active	Not Active
Pump Yield	80 gal/min	80 gal/min	80 gal/min	100 gal/min

Storage, Pumping

Structure or equipment	Location	Capacity
booster pumps	Near 31310 N 144 th Street	Two 20 HP and One 50 HP
pressure tank	Near 31310 N 144 th Street	One 5,000 gal
Storage tank	Near 31310 N 144 th Street	One 250,000 gallons

Distribution Mains

Diameter (inch)	Material	Length(ft)
6	PVC	45
8	PVC	8,851
8	DIP	600
10	PVC	13,306
12	PVC	6,602

Meters

Size (inch)	Quantity
1	68
1 1/2	5
2	2

C. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE ("ADEQ")

ADEQ or its formally delegated agent, the Maricopa County Environmental Services Department ("MCESD"), reported that the WUNS drinking water system (PWS Number 07-179) is in compliance with regulatory agency requirements and is currently delivering water that meets State and Federal drinking water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4. (MCESD report dated 01/24/07).

D. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

A check with the Utilities Division Compliance Section showed no delinquent compliance items for WUNS. (ACC Compliance Section Email dated 7/8/08)

E. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The WUNS is located in the Phoenix Active Management Area ("AMA") and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report on July 23, 2008. ADWR reported that it has determined that WUNS is currently in compliance with departmental requirements governing water providers and/or community water systems.

F. WATER TESTING EXPENSES

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Starting January 1, 2002, water companies paid a fixed \$250 per year fee, plus an

additional fee of \$2.07 per service connection regardless of meter size for participation in MAP (\$2.57 per service connection minus \$0.50 refund per service connection). Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$668 during the 2007 test year. Staff has reviewed the Company's testing expense and has recalculated the testing costs. Table 1 shows Staff's annual monitoring expense estimate of \$1,098 with participation in the MAP.

Table 1 Water Testing Cost

Monitoring – 2 wells (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Bacteriological – monthly	\$30	36	1080	360
MAP – IOCs, SOCs, & VOCs	MAP	MAP	MAP	405
Lead & Copper - annual	\$50	20	1000	333
Total				\$1,098

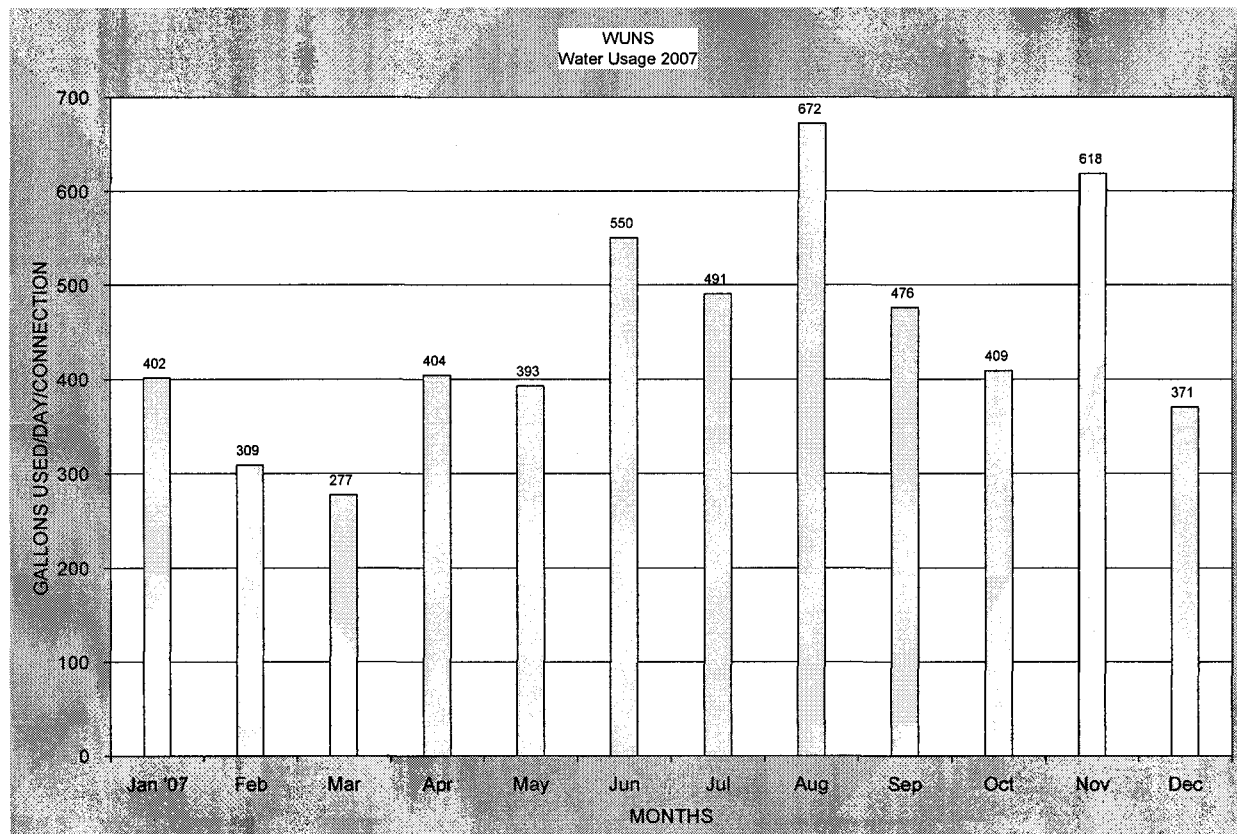
Note: ADEQ's MAP invoice was \$437.61

Staff recommends its annual water testing expense of \$1,098 be used for purposes of this application.

G. WATER USE

Water Sold

Based on the information provided by the Company, water use for the year 2007 is presented below. The high monthly domestic water use was 672 gal/day per service connection in August and the low monthly domestic water use was 277 gal/day per service connection in March. The average annual use was 448 gal/day per service connection.



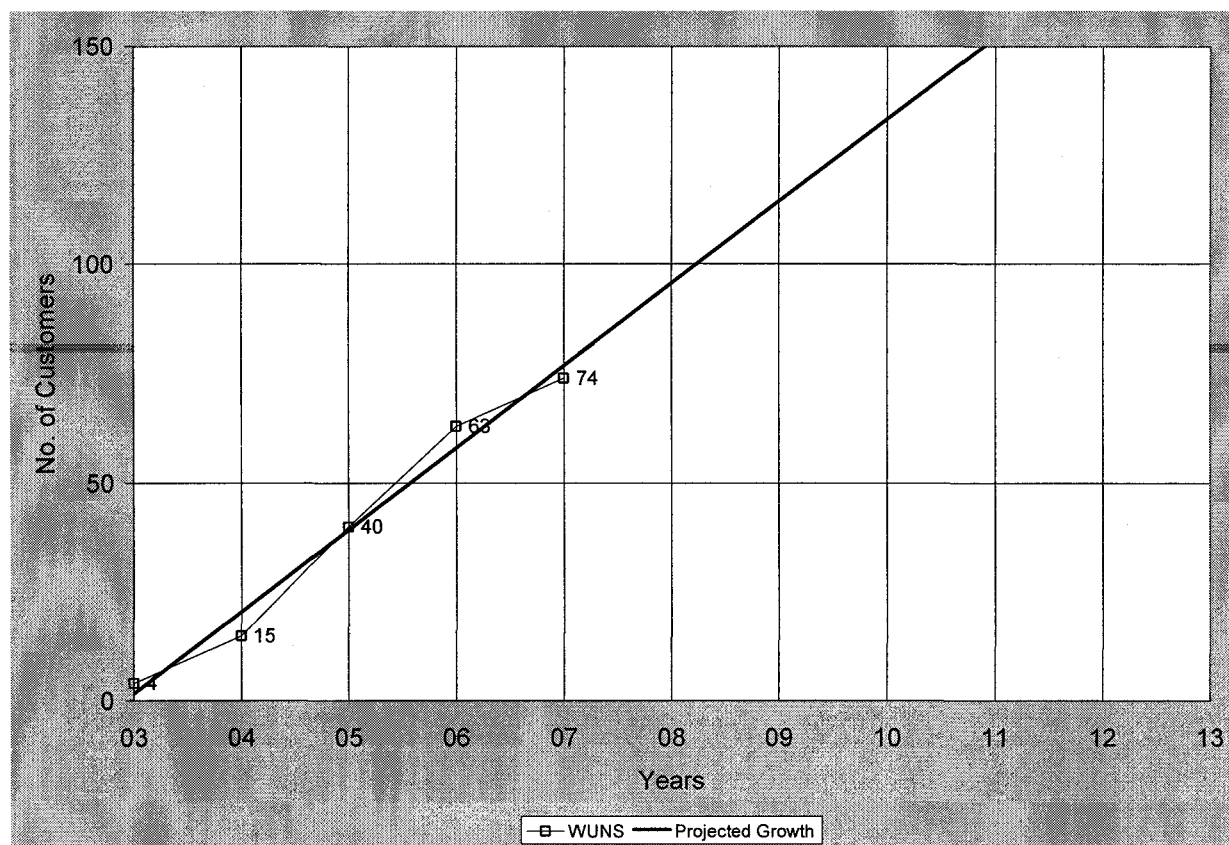
Non-account Water

Non-account water should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. The Company reported 11,640,000 gallons pumped and 11,449,000 gallons sold, resulting in a water loss of 1.64% for 2007. Non-account water is within acceptable limits.

H. GROWTH

Figure 4 details the customer growth using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission. During the test year 2007, the Company had 74 customers and it is projected that the Company could have more than 100 customers by 2009. The Company estimates that the customer base will reach full build out of 100 customers in 2013.

Figure 4 Projected Growth



I. DEPRECIATION RATES

Staff recommends that the Company use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category on a going forward bases. Individual depreciation rates by NARUC category are presented in Table B.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

J. CURTAILMENT PLAN TARIFF

The Company has an approved Curtailment Plan Tariff on file with the Commission.

K. METER AND SERVICE LINE INSTALLATION CHARGES

The Company has requested to change its service line and meter installation charges. These charges are refundable advances and the Company's proposed charges are within or below Staff's recommended range for these charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff. Staff recommends that the Company separate service line charges and meter charges. The separate service line charges and meter charges recommended by Staff and listed in Table C equal the Company's total proposed charge.

Table C. Service Line and Meter Installation Charges

Meter Sizes	Current Charges	Company Proposed Charges	Staff recommended Service Line Charges	Staff recommended * Meter Charges	Staff recommended Total Charges
5/8" x 3/4"	485	485	370	115	485
3/4"	485	520	375	145	520
1"	575	610	405	205	610
1-1/2"	775	855	440	415	855
2" - Turbine	1900	1,515	615	900	1,515
2" - Compound	No Tariff	2,240	615	1,625	2,240
3" - Turbine	2,490	2,195	790	1,405	2,195
3" - Compound	No Tariff	3,030	830	2,200	3,030
4" - Turbine	3,615	3,360	1,100	2,260	3,360
4" - Compound	No Tariff	4,315	1,155	3,160	4,315
6" - Turbine	6,810	6,115	1,655	4,460	6,115
6" - Compound	No Tariff	7,890	1,700	6,190	7,890

*Note: Meter charge includes meter box or vault.

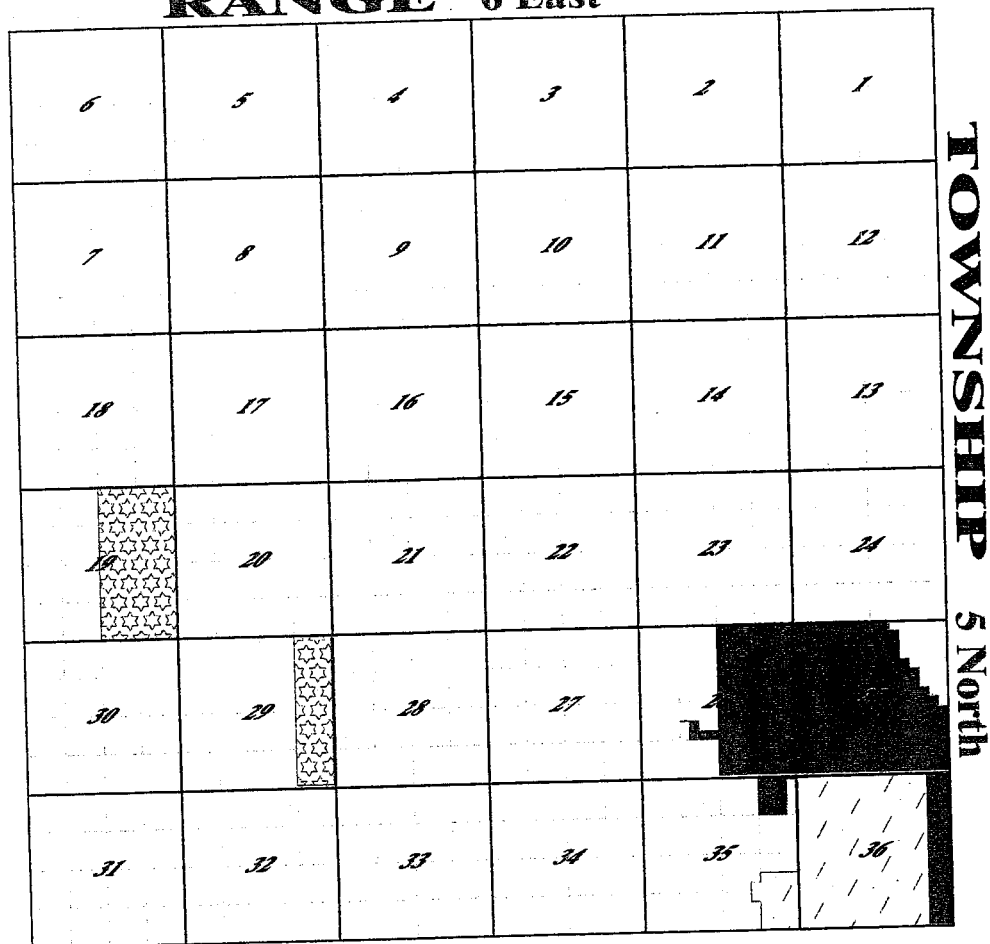
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Figure 1: Maricopa County Map

COUNTY: *Maricopa*

RANGE 6 East



WS-2156 (3)
Rio Verde Utilities, Inc.


 W-3720 (1)
Water Utility of Northern Scottsdale, Inc.

Figure 2: Certificated Area

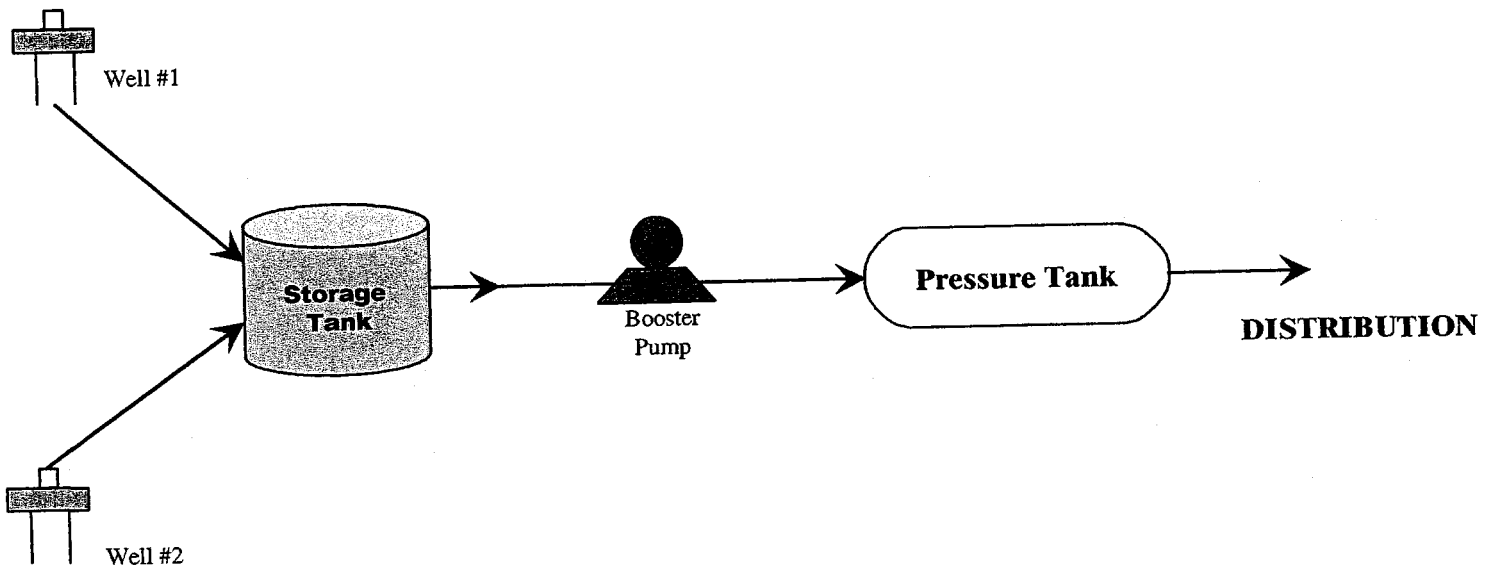


Figure 3. Process Schematic